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Planning for the future: Your social security benefits; Consumer guide;

American Institute of Certified Public Accountants. Communications Division

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How do my earnings affect my benefits?

There is a limit to the amount of money you can earn and still collect all your Social Security benefits. This affects those under the age of 70 who collect Social Security retirement, dependents' or survivors' benefits. (If you are 70 or older, there is no restriction on your outside earnings.) Following are some specific rules on these limitations as of January 1, 1995.

- If you are under age 65, you can earn up to \$8,160. However, for every \$2.00 you earn over this limit, your benefit will be reduced by \$1.00.
- If you are age 65 through 69, you can earn up to \$11,280. However, for every \$3.00 you earn over this limit, your benefit will be reduced by \$1.00.

People who work and collect disability or SSI benefits have different earnings limitations and should report all their income to Social Security.

When am I eligible to receive retirement benefits?

Today, the age at which you are eligible for full retirement benefits is age 65. If you were born before 1938, you will be eligible to receive full Social Security retirement benefits at the age of 65. However, beginning in the year 2000, the age at which full benefits are payable will increase in gradual steps from age 65 to 67. This affects people born in 1938 and later. For example, if you were born in 1940, your full retirement age is 65 and 6 months. If you were born in 1950, your full retirement age is 66. Those born after 1960 will be eligible for full retirement benefits at age 67.

You may elect to retire on a reduced benefit between the ages of 62 and 64. Be aware that if you choose to take this route, your benefit will be permanently reduced by a small percentage for each month before your full retirement age. However, you will collect benefits for a longer period of time.

What if I retire after age 65?

Working full-time beyond your full retirement age increases your Social Security benefit because it increases your average lifetime earnings—the basis for determining the amount of your benefit. Also, people who delay retirement are given a special credit. For people turning 65 in 1995, the rate is four and three-quarters percent for every year they delay retirement up to age 70. That rate will gradually increase in future years, until it reaches 8 percent per year for people turning 65 in 2008 or later.

When am I eligible for Medicare?

When you reach age 65, you will be eligible for Medicare as long as you are eligible for Social Security benefits. This is true even if you keep on working. Also, you're eligible for Medicare if you are under age 65 and have been receiving disability benefits for two years or have permanent kidney failure. A spouse who is 65, dependents receiving disability benefits for two years, or dependents with permanent kidney failure, may also be eligible.

Medicare is divided into two parts: hospital insurance (part A) and medical insurance (part B). Hospital insurance helps pay the cost of in-patient hospital care and various types of follow-up services. There is no monthly premium charge for part A because a portion of your FICA taxes was earmarked for it while you were working. If you do not qualify for Social Security benefits, you can purchase part A coverage.

If you opt for medical insurance (part B) coverage, you must pay a monthly premium. Medical insurance helps pay the cost of physicians' services, outpatient hospital services, and certain other medical items and services not covered by hospital insurance.

You can apply for Medicare at any Social Security office three months before you reach age 65. If you wait to apply until the month you reach age 65 or later, you may lose one or more months of Medicare medical insurance protection.

How do I apply for Social Security benefits?

To receive Social Security benefits, you must file an application at any Social Security office. For disability, survivors' and SSI benefits, you should apply as soon as you're eligible. For retirement benefits, you should apply three months before you plan to retire. In any case, you should not wait more than six months to apply for Social Security benefits since, generally, the law does not allow for retroactive payments for a period longer than six months.

Where can I go for more advice?

CPAs can help you develop a personal plan for your future financial security, taking into account Social Security benefits as well as other income. They can also advise you on how to get the most out of your Social Security benefits. Remember, each individual situation is different and what may apply to someone else, may not apply to you.

For further information on Social Security, contact your local Social Security office or call:
1-800-772-1213

A CONSUMER GUIDE

PLANNING FOR THE FUTURE

Your Social Security Benefits



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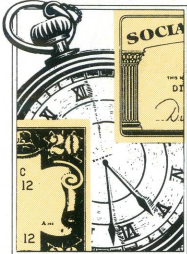
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Understanding how Social Security works will enable you to better plan for your future financial security. First and foremost: although Social Security may provide you and your family with income when you retire or if you become disabled, it should not be

counted on as the only source of income during these times. CPAs strongly recommend that you plan to supplement your future Social Security income with other investments, savings and personal retirement savings accounts. This brochure outlines what you need to know about Social Security. For advice on developing a retirement plan to ensure an even brighter financial future, consult a CPA.

How does Social Security work?

The idea behind Social Security is a simple one. You pay taxes into the system during your working years, and you and members of your family receive monthly benefits when you retire or become disabled. Or, in certain cases, your survivors collect benefits when you die.

You and your employer equally pay a specified percentage of your gross salary in Social Security (FICA) taxes. If you are self-employed, you pay the entire amount of Social Security taxes on your own. However, CPAs point out that self-employed people may be able to deduct a percentage of the self-employment Social Security taxes they pay. For up-to-date tax information, contact your tax adviser.

As you work and pay Social Security taxes, you earn "credits." As of January 1, 1995, you receive one credit for every \$630 of your earnings, but you cannot earn over four credits in one year. Also, keep in mind that the amount of money needed to earn one credit increases every year to help keep pace with increases in average wages.

How many credits will I need to become fully insured?

The number of credits you need to qualify for Social Security depends on your age and the kind of benefit for which you are applying. Most people need 40 credits (10 years of work) before they are fully insured to receive monthly benefits at retirement age. The number of credits needed for disability or survivors' benefits depends on how old you are when you become disabled or die.

During the course of your working lifetime, you will most likely earn more credits than you need to qualify for Social Security benefits. This will not necessarily increase your future Social Security benefit. However, it will increase your "average" lifetime earnings, which is the basis for determining the amount of your benefit.

What benefits do I receive for paying Social Security taxes?

A common misconception is that Social Security only benefits retired people. However, it is actually a package of protection—consisting of retirement, survivors, and disability insurance—for you and your family while you work and after your retire. As long as you are fully insured, you will receive Social Security benefits if you are:

- Age 62 or older and plan to retire.
- Unable to work because of an illness or injury expected to last a year or longer. (Since disability is one of the most complicated of all Social Security programs, call or visit your local Social Security office for more information.)
- A widow or widower who is age 60 or older; age 50 and disabled; or any age and caring for a child under age 16 or permanently disabled.
- A dependent of a worker who retires, becomes severely disabled or dies. (Your entitlement may depend on your age at the time any of these events occur.)

Is my family entitled to any benefits on my record?

When you start collecting Social Security retirement or disability benefits, other members of your family also may be eligible for payments. Generally, a family member is eligible for a benefit equal to 50 percent of your retirement or disability rate. If you are fully insured, benefits may be paid to:

- A spouse who is age 62 or older, unless your spouse collects a higher Social Security benefit on his or her own record. Benefits are reduced a small percentage for each month before your spouse reaches age 65.
- A spouse of any age if he or she is caring for a child under age 16 or permanently disabled.

■ Children who are unmarried and under age 18; or under age 19, but in elementary or secondary school as a full-time student; or over age 18 but severely disabled. (The disability must have started before age 22.)

■ An ex-spouse who is at least 62 years old and who was married to you for at least ten years, as long as he or she is not eligible for an equal or higher benefit on his or her record, or on someone else's record. (If your ex-spouse receives benefits on your account, it does not affect the amount of any benefits payable to you or other family members.)

It is important to note that there is a limit to the amount of money that can be paid on an individual's Social Security record. The limit varies, but is generally equal to about 150 percent to 175 percent of your benefit rate. If the sum of the benefits payable on your account is greater than this family limit, then benefits to family members will be reduced proportionately. However, your own benefit will not be affected.

How is the amount of my benefit calculated?

The amount of your Social Security benefit is based on such factors as your date of birth, the type of benefit for which you are applying, and most important, your average lifetime earnings on which you paid Social Security taxes. In figuring your average earnings, the lowest five years of annual earnings are not counted. Earnings are also adjusted to reflect changes in wage levels over your working lifetime.

Essentially, your Social Security benefit represents a percentage of your average monthly working income based on your lifetime earnings history. That percentage is about 42 percent for people who earned an average income during their working years. If you earn the maximum currently subject to Social Security tax, you can expect to receive about 28 percent of your preretirement income (up to the wage base) from Social Security retirement benefits. The percentage is lower for people in the upper income brackets, and higher for people with low incomes.

To receive a free personal estimate of your Social Security retirement, disability and survivors benefit, call your local Social Security office and ask for Form SSA-7004-PC, *Request for Earnings and Benefit Estimate*. CPAs recommend that you request a statement of your earnings record every three years to be sure it is correct.

What if I haven't earned enough credits?

You may be eligible for Supplemental Security Income (SSI) if you haven't worked long enough to get Social Security, or if you are only entitled to a small amount, but you must be age 65 or older, blind or disabled. In addition to these requirements, you must also have a low income and very few assets. Children may also be eligible for SSI benefits because of blindness or disability.

SSI payments do not come from Social Security taxes or Social Security trust funds. They are financed by the general revenue funds of the U.S. Treasury. The amount of income you can earn each month and still qualify for SSI benefits depends partly on where you live. Some states have higher income limits and SSI rates than others. For more information on the SSI program, call or visit your local Social Security office.

Are any of my benefits taxable?

Most people don't pay any taxes on their Social Security benefits. However, depending on your income tax bracket, you may have to pay taxes on up to 85 percent** of your Social Security benefits, based on a formula which can be found in the instructions to income tax return forms.

In general, if you fall into one of the following categories, you will probably have to pay income tax on a portion of your Social Security benefits.

- Your combined income* exceeds a base amount of \$25,000 and you file a federal tax return as an individual.
- Your combined income* exceeds a base amount of \$32,000 and you file a joint federal tax return with your spouse.
- You are married and file a separate tax return. (Note: There is no base amount in this case, unless the couple lives apart for the entire taxable year.)

* *Combined income means your adjusted gross income, plus nontaxable interest, plus one-half of your Social Security benefits.*

** *Congress is considering reducing this amount to 50 percent again. Check with your CPA on the latest figure.*